



COALITION FOR SECURE RETIREMENT - MICHIGAN

Coalition for Secure Retirement-Michigan

Testimony to the House Education Reform Committee

June 14, 2017

Good morning Chairperson Kelly and members of the committee. My name is Nick Ciaramitaro, and I am the president of the Coalition for Secure Retirement in Michigan as well as legislative director for Michigan AFSCME. CSR-MI represents hundreds of thousands of active and retired public employees at all levels of government and Michigan AFSCME represents about 8000 non-instructional school employees. Thank you for the opportunity to testify today.

People's economic lives and long term security are on the line with this legislation. Stakeholders have not had a chance to fully review the language of the substitute that is just now being released. Though I appreciate the quick work of the Senate Fiscal Agency in attempting to cost it out they were forced to use words like "indeterminate" because of the many questions left unanswered concerning its implementation. The State, the School Aid Fund and school employees are left with many questions as to the fiscal impact on each. No one has had a chance to evaluate its impact on attracting and retaining qualified staff. Rushing it forward without further review is a mistake.

While we see some real improvement over the legislation as originally introduced, from what we have been able to glean thus far we also see serious problems and so must oppose this bill at this time.

We are opposed to the HB 4647 substitute as a thinly veiled attempt to close the viable and effective hybrid pension system available to MPSERS participants. We feel that this is the wrong choice not only for the school employees who would be directly affected, but for Michigan's future fiscal stability. We are particularly concerned about the open-ended cost sharing provisions should the new plan fall below 100% funding and the virtually automatic closure of the fund if funding falls below the stable level of 85% funding.

Demanding 100% funding without penalizing plan participants ignores the fact that funding fluctuates with the market –up and down, declining and recovering with the economy. The proposal then insists that anything below 85% is untenable – contrary to national best practices which hold 80% funding levels to be virtual full funding. Taxpayers and public school employees should not be forced to shoulder the entire cost instead of looking for ways to maximize investment income.

There are many public and private sector pension funds in Michigan alone that are either near or over proper funding levels, even after weathering two major economic downturns in the last 15 years. The combination of the Great Recession followed by an unprecedented period of rock-bottom interest rates created a whipsaw effect that made it very difficult for many pensions systems to recover their losses quickly. Depending on a person's age and when they retired many 401k plans will never recover while the pension plans ultimately will. The closing of a pension plan, by forcing investment strategies and depleting reserves that lower investment returns, only further exacerbates the problem. That is an experience we should not replicate here.

MPSERS has had to face being undermined by numerous state policies that ate away at its solvency. Decisions in the early 2000s to change the way pension investment returns were smoothed, allocation of less in annual contributions, and an early retirement plan that was never funded created large liabilities for MPSERS. Another major policy change that created a huge amount of debt for the system was shifting billions in payroll from MPSERS positions to non-MPSERS positions via the expansion of charter schools and the outsourcing of public school workers, a problem that is only partially addressed in this bill.

In 2010 and again in 2012, the Legislature made major changes to MPSERS in an effort to address the growing unfunded liability. The creation of the hybrid system was seen as the best way to address future risks to the system while maintaining a minimum level of retirement security for school employees. Changing to a hybrid – as opposed to closing the system as HB 4647 may well ultimately do – avoided the massive closing costs associated with cutting off a pension plan to new hires. We at CSR believe that this change, along with Governor Snyder's commitment to prefunding retiree health care and allocating additional funds to pay down liabilities, has already put MPSERS on an upward path. Changing the system now will only undermine these efforts. This will do nothing to address the current liabilities, and will force the state and its employees to spend an unknown amount of money that could otherwise go to numerous more pressing needs.

Setting the hybrid system up for failure replicates an approach that has been used before and has met only with failure. Michigan need only look to its other major statutory plan – the Michigan State Employee Retirement System for proof. Twenty years ago, Michigan closed that fully funded pension plan. Today that plan is funded at approximately 60% - much less than 85%. The state pension plan when it was closed required an annual contribution of 12% of payroll. Today the two state employee plans are approaching 40% of payroll. For all this additional cost, 401k employees can expect retirement benefits that are 20-22% less than their pension counterparts as determined by national studies. The trend that led to pension closures was national but other states are already recognizing the mistake. Two states, West Virginia and Connecticut have already reversed courses and closed their 401k plans and mandated new hire return to a pension system.

I appreciate the opportunity to testify this morning but strongly urge you to oppose this bill and work with us to determine more reasonable and less costly ways to assure public school employees the secure retirement they deserve. I am happy to answer any questions you may have.